

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 30th day of September, 2004 (Effective Date), by and between **Community Development Bank, FSB, Ogema, Minnesota**, OTS Docket No. 17428 (the Bank), a federal stock savings bank, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Midwest Regional Director or his designee (Regional Director).

WHEREAS, the OTS is the primary federal regulator of the Bank;

WHEREAS, based upon the Bank's May 24, 2004 Report of Examination (ROE), the OTS is of the opinion that the Bank has engaged in acts and practices that: (i) have resulted in violations of certain laws or regulations to which the Bank is subject; and/or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against the Bank;

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

1. **Compliance With Laws and Regulations**

The Bank, its directors, officers, employees, agents, and subordinate organizations shall take all necessary and appropriate actions to comply with the following laws and regulations:

- A. 12 C.F.R. § 560.170 (regarding records for lending transactions);
- B. 12 C.F.R. § 563.41 (regarding transactions with affiliates);
- C. 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);
- D. 12 C.F.R. § 563.177(b)(1) and (c)(2) (regarding Bank Secrecy Act compliance policy and independent testing);
- E. 12 C.F.R. § 564.8 (regarding appraisal policies and practices);

- F. 12 C.F.R. Part 570, Appendix A, Sections II.C. and II.D. (regarding loan documentation and credit underwriting); and
- G. 12 C.F.R. Part 570, Appendix B (regarding standards for customer information security guidelines).

2. **Transactions with Affiliates**

- A. The Bank shall not, except in accordance with a written notice of non-objection by the Regional Director, engage in any transaction with any affiliate of the Bank.
- B. The Bank shall not engage in any transaction with an affiliate unless that transaction is fully in compliance with 12 C.F.R. § 563.41 and all other applicable laws and regulations.
- C. By no later than October 15, 2004, the Board shall submit to the Regional Director a written report that summarizes actions taken by the Bank to address violations of 12 C.F.R. § 563.41 that are referenced in the ROE.
- D. By no later than October 15, 2004, the Board shall submit to the Regional Director a Loan Disposition Plan, acceptable to the Regional Director, that requires the Bank to dispose of all of the Bank's loans that were made in violation of 12 C.F.R. § 563.41. This Loan Disposition Plan shall set forth a time line for the prompt disposition of these loans. The Bank shall comply with the Loan Disposition Plan, including any amendments thereto required in writing by the Regional Director, except in accordance with a written notice of non-objection by the Regional Director.
- E. By no later than October 15, 2004, the Bank's chief executive officer shall provide to the Regional Director a written and signed certification that he has thoroughly read and reviewed the provisions of 12 U.S.C. § 1468, 12 C.F.R. § 563.41, 12 U.S.C. §§ 371c and 371c-1, and 12 C.F.R. Part 223.
- F. The Bank shall maintain adequate corporate separateness with each of its affiliates.

3. **Audits and Internal Controls**

- A. By no later than October 15, 2004, the Board shall submit to the Regional Director a written report summarizing all actions taken to address all deficiencies referenced in the ROE with respect to the audit committee or the adequacy of internal or independent audits. Thereafter, the Board shall ensure that all such deficiencies at the Bank are not repeated.
- B. The Bank shall comply with the guidelines set forth in Sections II.A. and II.B. of Appendix A to 12 C.F.R. Part 570 and the guidelines set forth in Section 340 of the OTS Thrift Activities Handbook, regarding Internal Control.

- C. By no later than October 15, 2004, the Board shall ensure that it has a properly functioning Audit Committee.
- D. The Board shall immediately and thereafter require (1) that internal audits address technology risk and the guidelines set forth in the Federal Financial Institutions Examination Council (FFIEC) IT Examination Handbook-Audit (August 2003), and (2) that, during the course of internal and external audits, the audits address the Bank's operating control risks through the usage of a risk assessment and the audit procedures recommended as a result of this assessment.
- E. Following receipt of a report of any deficiency identified in an independent or internal audit report, the Board shall promptly take action to address each such deficiency and document such action in board minutes.

4. **Documentation**

The Bank shall properly document all of its operations in compliance with 12 C.F.R. §§ 560.170, 563.41(c)(3), and 563.170(c), and the guidelines of Sections II.C. and II.D. of Appendix A to 12 C.F.R. Part 570. This shall include, but not be limited to, thorough documentation of the following:

- A. Each and every transaction in which it engages with an affiliate or stockholder of the Bank;
- B. Each and every loan transaction;
- C. Each and every purchase of assets; and
- D. The discussions and actions taken at each and every meeting of the Board and of each committee and subcommittee thereof.

5. **Appraisals**

- A. The Bank's management shall thoroughly review appraisal reports and document the findings of such reviews prior to making any loan secured by property addressed by such appraisal.
- B. The Bank's management shall review, on an annual basis, the performance of all approved appraisers used in the preceding 12-month period for both (1) compliance with the Bank's Appraisal Policy and (2) the reasonableness of the value estimates reported and shall document the findings of such review.
- C. All loans originated by the Bank through the use of an agent, including but not limited to Midwest Minnesota Community Development Corporation, shall comply with 12 C.F.R. Part 564 and the guidelines of OTS Thrift Bulletin 55a.

6. **Valuation Allowances**

- A. The Bank shall, at all times, maintain adequate valuation allowances, as required by 12 C.F.R. § 560.160.
- B. By no later than October 15, 2004, the Board shall submit to the Regional Director a written commitment that the Bank will comply with Subsection 6.A. of this Agreement.
- C. By no later than October 15, 2004, and thereafter, the Board shall ensure that the Bank has an Allowance for Loan and Lease Losses (ALLL) Policy that complies with the guidelines of the Federal Financial Institutions Examination Council (FFIEC) Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, dated July 2, 2001, as updated by the FFIEC Update on Accounting for Loan and Lease Losses, dated March 1, 2004.
- D. The Bank shall comply with its ALLL Policy except in accordance with the written notice of non-objection by the Regional Director.

7. **Lending Operations**

- A. By no later than October 15, 2004, the Board shall provide the Regional Director with (1) a written report addressing all actions taken to address the lending and credit monitoring deficiencies addressed in the ROE and (2) written loan procedures to require compliance with, and the monitoring of compliance with 12 C.F.R. § 560.170 and the guidelines of Sections II.C. and II.D. of Appendix A to 12 C.F.R. Part 570, regarding loan documentation, credit underwriting, and loan monitoring.
- B. In conducting its commercial lending activities, the Bank shall comply with the guidelines set forth in Section 214 of the OTS Thrift Activities Handbook.
- C. The Bank shall not make, purchase, modify, or renew any loan unless and until the loan officer assigned to that loan certifies in writing: (i) that the loan complies with all applicable laws and regulations and Bank lending policies; (ii) that he or she has reviewed the borrowers' (and guarantors') financial condition; and (iii) that he or she has reviewed the appraisal, or other documentation of value, of the collateral if the loan is secured.
- D. The Bank shall not make, purchase, modify, or renew any loans that fail to comply with the Bank's lending policies unless and until the exceptions are reviewed and approved by the Board and documented in the Board minutes.

8. **Plans, Policies and Procedures**

- A. By no later than October 15, 2004, the Board shall submit to the Regional Director a written report summarizing all actions taken to require compliance by the Bank and the Bank's officers, directors, employees, and other agents with the plans, policies and procedures of the Bank and to require the monitoring of compliance with the Bank's plans, policies, and procedures.
- B. Prior to adopting, repealing, or amending any policy of the Bank, each member of the Board who votes in favor of the action shall certify that he/she has thoroughly read such policy. Each such certification shall be noted in the minutes of the Board meeting at which the action takes place.
- C. The Bank and its officers, directors, employees, and other agents shall comply with the plans, policies and procedures of the Bank except in accordance with a written notice of non-objection by the Regional Director. Nothing in this subsection C., however, prohibits the Bank from taking an action or inaction that is contrary to the general guidelines of a plan, policy or procedure of the Bank if (1) such action or inaction was expressly authorized by the Board and (2) the plan, policy or procedure at issue expressly permits action contrary to its general guidelines with the approval of the Board.

9. **Business Plan**

- A. By no later than December 31, 2004, the Board shall adopt and submit to the Regional Director a written three-year Business Plan, acceptable to the Regional Director, with quarterly financial projections. This Business Plan shall (1) address proposed actions designed to improve the profitability of the Bank's loan production office at Falls River, (2) provide for the Bank to remain well-capitalized, (3) provide for a budget, (4) address the earnings of the Bank, (5) set forth guidelines to govern transactions with the stockholders of its holding company, (6) describe the economic forecasts upon which the Business Plan is based and address both the most likely and worse case scenarios, (7) outline in detail what functions will be outsourced and what functions will be performed in-house, (8) address and require training of the Bank's executive management in order to ensure that the Bank's executive management has an adequate understanding of the laws, regulations, and policies applicable to the savings and loan industry; and (9) describe how the Board will monitor adherence to the Business Plan and make adjustments to accommodate significant economic changes. This Business Plan shall not provide for any new loan production office, other than one loan production office to be located at Detroit Lakes, Minnesota, until after the loan production office at River Falls, Wisconsin is profitable. The Bank shall comply with this Business Plan except in accordance with a written notice of non-objection by the Regional Director.

- B. By no later than November 30, 2004, the Board shall submit to the Regional Director for review and consent a draft Business Plan designed to satisfy the Business Plan requirements set forth in Section 9.A of this Agreement.
- C. By no later than December 31st of each year, beginning in 2005, the Board shall update its Business Plan to cover the following three years, with quarterly projections.
- D. Within 15 days of the end of each calendar quarter, beginning with the first calendar quarter of 2005, the Board shall submit to the Regional Director a written report addressing all variances, if any exist, to the Business Plan.

10. **Information Technology**

- A. By no later than November 15, 2004, the Board shall submit to the Regional Director a written Information Technology (IT) Plan, acceptable to the Regional Director, designed to (1) correct all deficiencies and concerns referenced in the ROE regarding information technology; (2) review compliance with the guidelines set forth in Section 341 of the OTS Thrift Activities Handbook; (3) require compliance with the guidelines of Section II.A of Appendix A to 12 C.F.R. Part 570; (4) require compliance with 12 C.F.R. § 568.4; and (5) require compliance with the FFIEC IT Examination Handbook – Management (June 2004). This IT Plan shall set forth a plan of action with a specific time line for resolving the deficiencies. This IT Plan further shall assign accountability to specific persons and set forth priorities, action, and deadlines for addressing each deficiency or concern referenced on the exception sheet, dated June 22, 2004, and provided to President Shipley with regard to technology risk controls. The Bank shall comply with this IT Plan, except in accordance with a written notice of non-objection by the Regional Director.
- B. The Board shall regularly monitor progress on addressing information technology deficiencies and concerns at the Bank until the Bank fully implements its new customer information security program, required by Subsection D. hereof. The Board shall document such monitoring.
- C. Fifteen calendar days after the end of each quarter, beginning with the fourth calendar quarter of 2004, the Board shall submit to the Regional Director a written report addressing whether there has been compliance during that quarter with the IT plan required by Subsection A hereof and addressing the status of the correction of information technology deficiencies.
- D. By no later than November 15, 2004, the Board shall adopt a new, written Customer Information Security Program that is acceptable to the Regional Director and is in compliance with the guidelines set forth in Appendix B to 12 C.F.R. Part 570. The Bank shall thereafter comply with the guidelines of Appendix B to 12 C.F.R. Part 570, and the new Customer Information Security Program, including any amendments required by the Regional Director, except in accordance with a written notice of non-objection by the Regional Director.

11. **Outsourcing**

The Board shall ensure that all of the Bank's outsourcing of services, including but not limited to outsourcing to Community Development Corporation or any other affiliate, complies with the guidelines of OTS Thrift Bulletin 82.

12. **Anti-Money Laundering Program**

- A. The Board shall, by no later than October 15, 2004, adopt and submit to the Regional Director an amended Bank Secrecy Act (BSA) Policy, acceptable to the Regional Director, that (1) provides for independent testing to be conducted in accordance with the requirements of Sections 12 and 13 of this Order, (2) includes an anti-money laundering statement and Suspicious Activity Report (SAR) requirements for reporting suspicious activity for operational areas subject to BSA, (3) requires compliance with the requirements of 31 C.F.R. § 103.18 and 12 C.F.R. §§ 563.177 and 563.180(d), (4) requires the revision of the Bank's monetary instrument log to capture the social security number, valid government identification and date of birth for all non-customer purchases, (5) addresses Wire Transfers and Foreign Assets Control (OFAC) requirements, (6) includes the Bank's Customer Identification Program, and (7) complies with all other requirements of this Order. The Bank shall comply with the BSA Policy, including any modifications required in writing by the Regional Director.
- B. The Board shall review its BSA Policy at least annually and more frequently if regulatory changes or other circumstances make consideration of revision prudent. The Board shall ensure that the Bank has adequate documentation to reflect all actions taken in: (1) the Board's oversight function over the Bank with regard to compliance with BSA laws and regulations and (2) response to compliance reviews of the Bank's operation for deficiencies under the standards of BSA laws and regulations.
- C. By no later than October 15, 2004, each director of the Bank shall certify that he or she has read Regulatory Bulletin 18-6, "Supplemental Guidance on Bank Secrecy Act and Anti-Money Laundering Programs", dated March 31, 2004. Such certification shall be set forth in the minutes of the Board and sent to the Regional Director.

13. **Independent Testing for BSA Compliance**

- A. By no later than October 15, 2004, the Bank shall conduct independent testing as required by 12 C.F.R. §563.177(c)(2) (Independent Testing) and submit to the Regional Director a written report of the results of the Independent Testing. Thereafter, the Bank shall conduct Independent Testing at least once every twelve months and more frequently if appropriate under the circumstances. The Independent Testing must be conducted by an independent, qualified outside firm.

- B. The Independent Testing required by Subsection A. hereof shall cover all requirements of BSA Laws and Regulations and the procedures set forth in the Bank's BSA Policy and shall be documented in a written report (Independent Testing Report) and provide for transactional analysis where appropriate. The Independent Testing Report shall address the following:
1. Compliance with information sharing requirements under Section 314 of the USA Patriot Act, including procedures for receiving and responding to Section 314(a) FinCEN requests;
 2. Customer identification program;
 3. Identifying and reporting suspicious activities and filing SARs;
 4. Timing and accuracy of the filing of CTRs (FinCEN Form 104 and FinCEN Form 105), including review of teller's work and daily cash reports and compliance with exemption rules and the requirements of CTR filing requirements (including review of systems for CTR exemptions, the filing of the required forms to designate an entity as exempt from the CTR requirements, and the reasonableness of the exemptions granted);
 5. Confirmation of the integrity and accuracy of the Bank's BSA recordkeeping activities and adherence to in-house record retention schedule;
 6. Procedures and compliance with procedures for maintaining required information from customers purchasing monetary instruments for cash in amounts between \$3,000 and \$10,000, and with procedures ensuring that appropriate identification measures are in place;
 7. Wire transfer operations, if any;
 8. Training records of appropriate personnel and assessments regarding whether the Bank is conducting an ongoing and effective BSA training program;
 9. Compliance with Office of Foreign Asset Control (OFAC) requirements; and
 10. Monitoring of cash shipments to and from a Federal Reserve Bank or a correspondent bank of the Bank.
- C. The Independent Testing Report shall set forth specific methodology used to conduct the testing, state specific findings, and recommend specific corrective actions to address any deficiencies. The Bank shall maintain copies of the Independent Testing Report, as well as the detailed work papers (including records of transaction analysis), for five (5) years.

14. **Director Responsibility**

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, notice of non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

15. **Compliance with Agreement**

- A. All policies, procedures, corrective actions, plans, programs, reviews and systems required by this Agreement (collectively, Policies and Procedures) shall conform to all applicable statutes, regulations, OTS policy and guidance.
- B. The Board shall require the Bank's management to correct all deficiencies identified in the Bank's ROE, as directed therein. Further, the Board and management of the Bank shall take immediate action to cause the Bank to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Bank to continue to carry out the provisions of this Agreement.

16. **Monitoring**

- A. The Board shall, on a monthly basis beginning with the month of October 2004, adopt a board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from Bank's management regarding the Bank's compliance with each numbered paragraph of this Agreement), to the best of its knowledge and belief, during the immediately preceding calendar month, the Bank has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall:
 - 1. Specify in detail how, if at all, full compliance was found not to exist; and
 - 2. Identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
- B. The minutes of each meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:
 - 1. The identity of each director voting in favor of its adoption; and
 - 2. The identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

- C. Within fifteen (15) calendar days after the end of each calendar month, beginning with the month of October 2004, the Board shall provide to the Regional Director a certified true copy of the Compliance Resolution(s) adopted at the Board meeting pursuant to Section C. of this Agreement. The Board, by virtue of the Bank's submission of a certified true copy of such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except that in the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board meeting minutes.
- D. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement, including making Bank records and documents available for OTS examiner review upon request.

17. **Definitions**

- A. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of this Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act (HOLA), Federal Deposit Insurance Act (FDIA) or OTS Bulletins. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Bulletins shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.
- B. For purposes of this Agreement, nothing shall be deemed "acceptable" to the Regional Director unless the Regional Director, or the assigned Regional Deputy Director or Assistant Director, has stated, in writing, that it is acceptable or has provided a written notice of non-objection to it.

18. **Successor Statutes, Regulations, Guidance, Amendments**

Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

19. **Notices**

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

- A. The OTS by the Bank, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift

Supervision, Department of the Treasury, 225 East John Carpenter Freeway, Irving, Texas 75062-2326, (972) 277-9500, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

- B. The Bank by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Bank at 516 Main Street, Ogema, Minnesota 56569, (218) 983-3241 or telecopied to (218) 983-3243 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

20. **Duration, Termination or Suspension of Agreement**

- A. This Agreement shall:

- 1. Become effective upon its execution by the OTS, through its authorized representative, whose signature appears below; and
- 2. Remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

- B. The Regional Director, in his sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

21. **Time Limits and Suspension or Termination of Provisions**

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted. The Regional Director, or the assigned OTS Regional Deputy Director or Assistant Director, may extend time frames by written notice that expressly provides for such extension and may suspend or terminate any requirement of the Bank under this Agreement through written notice that expressly provides for such suspension or termination.

22. **Effect of Headings**

The Section headings herein are for convenience only and shall not affect the construction hereof.

23. **Separability Clause**

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director, in his sole discretion, determines otherwise.

24. **No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted**

Nothing in this Agreement shall be construed as:

- A. Allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject; or
- B. Restricting the OTS from taking such action(s) as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

25. **Successors in Interest/Benefit**

The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, expressed or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

26. **Signature of Directors**

Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board resolution authorizing the execution of this Agreement by the Bank.

27. **Integration Clause**

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter. However, as noted herein, all Policies and Procedures required by this Agreement shall, upon modification consistent with the direction of the Regional Director if such direction is given, become part of this Agreement and any deviation from these policies shall be deemed a violation of this Agreement.

28. **Enforceability of Agreement**

The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Bank. The Bank acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

29. **Counterparts**

This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Bank, in accordance with a duly adopted resolution of its Board, hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

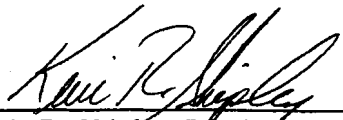
By:



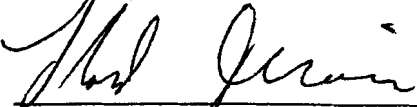
Frederick R. Casteel
Regional Director

**Community Development Bank, FSB
Ogema, Minnesota**

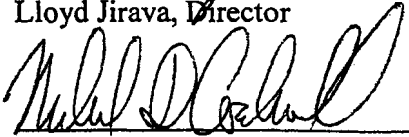
By:



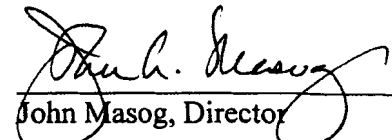
Kevin R. Shipley, President, Chairman of
the Board, and Chief Executive Officer



Lloyd Jirava, Director



Michael Coalwell, Director



John Masog, Director



Carol Peterson, Director